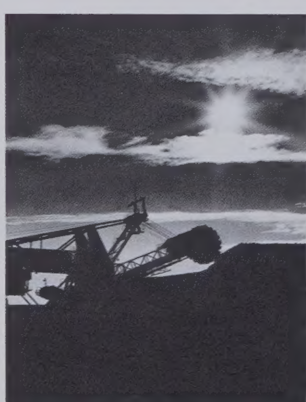
GREAT CANADIAN OIL SANDS LIMITED 1967 ANNUAL REPORT

Giant excavator digging against Alberta sky symbolizes start-up of pioneering tar sands project.



ON THE COVER: One of two huge excavators digs Athabasca tar sands for initial oil extraction and processing operations.

"...We are dedicated to the proposition that physical resource development must always have as its foremost purpose the development of human resources of this province and of this nation... With this objective in mind, it is fitting that we gather here today to dedicate this plant not merely to the production of oil but to the continual progress and enrichment of mankind." — *Alberta Premier E. C. Manning speaking at GCOS plant opening.* *(See special report, pages 4 and 5.)*

GREAT CANADIAN OIL SANDS LIMITED

Report of the Directors to the Shareholders and to the Employees

Construction completed, plant operational

Kenneth F. Heddon
President

W. Harold Rea
Chairman

We are pleased to report that the construction of your Company's Athabasca tar sands facility was completed on schedule and that all units were basically operational prior to the September 30 deadline. The plant was officially opened by Alberta Premier Ernest C. Manning on September 30 at formal ceremonies held at the site. A special report of that opening is included in this Report on pages 4 and 5.

The initial operation of the project's mining, extraction and processing facilities has demonstrated their capability of producing at designed capacity. However, as detailed below in the review of 1967 activities, problems with power plant units have permitted only minimal operation of the plant since early October.

Review of 1967 Activities. Clearance of your Company's 4,500 acre lease continued during the year, and more than 6,000,000 cubic yards of overburden were removed from the initial mining areas.

The two bucketwheel excavators that mine the sand and the conveyor systems that move it to the extraction plant were completed, tested and placed in operation during the early months of 1967. The entire system has operated in accordance with expectations.

All extraction and processing facilities were mechanically complete by mid year. The first bitumen was produced in test operations on May 1 and all four lines in the primary extraction plant as well as the final extraction facilities were operational prior to the September 30 opening.

All processing facilities, including the coking unit, Unifiners and hydrogen unit, were completed and tested on schedule. The first hydrogen was produced in test operations on May 28, and the first coke was produced on June 25.

Following the completion of testing, large-scale operations for short periods have demonstrated the ability of all extraction and processing units to perform efficiently, in accordance with the expectations based on field test unit research. The quality of product output is fully satisfactory, exceeding the original specifications.

Despite the fact that construction, testing and start-up schedules were met during the summer months, unexpected difficulties stemming from deficiencies in the design and performance of power plant boilers and turbines have prevented bringing the project into full-scale operation. Equipment manufacturers have been working closely with the Company to correct these problems, and two of the plant's three boilers are now fully operational. It is anticipated that adjustments on the third boiler will be completed soon and that the power plant will then be capable of operating at full capacity. Lack of sufficient steam and power has permitted only minimal operation of the plant since early October. This has resulted in added start-up expense and, of course, your Company has not received revenues from oil sales anticipated prior to the close of 1967.

Gas Pipeline Planned. Experience gained during initial operations has demonstrated that operating economies could be achieved by the use of natural gas as supplemental feed gas for hydrogen manufacture and as an auxiliary fuel for various other units. For this reason, your Company is negotiating a long-term gas purchase contract. Albersun Oil and Gas Ltd., a wholly-owned subsidiary of Sun Oil Company Limited, is constructing and will own and operate a 168-mile pipeline to move natural gas from the Lac La Biche area in Alberta to the plant site. It is presently planned that some of the gas will be made available to a utility company for use in servicing the town of Fort McMurray.

GREAT CANADIAN OIL SANDS LIMITED

Staffing Completed, Housing Advanced. At the close of 1967, your Company was almost fully staffed with some 450 administrative, clerical and operating employees on the payroll.

Catalytic Construction of Canada, Limited is supplying maintenance workers for the project as required.

Excellent progress was made during the year in the construction of new housing for Great Canadian employees and their families in the nearby town of Fort McMurray. At year-end 399 homes had been completed. It is presently planned to construct an additional 50 homes during 1968. Apartment facilities are also available.

Review of 1967 Financing. During 1967, the Company received $57,562,000 in additional funds to finance its project. Of that amount, $22,000,000 represented the remainder of the $100,000,000 to be borrowed from Sun Oil Company Limited under the agreement dated September 30, 1966. A total of $4,487,000 was borrowed from Central Mortgage and Housing Corporation to finance in part employee housing facilities in Fort McMurray. The remaining $31,075,000 was derived from additional short-term borrowings.

Under the financing plan, borrowings in the Canadian short-term market and from Sun Oil Company Limited have enabled the Company to complete its project. It is anticipated that substantial amounts of these borrowings will be replaced by long-term financing, after the plant is successfully in operation and when financial market conditions are satisfactory.

In regard to the December 31, 1967 Balance Sheet shown on page 6, your attention is directed to the Statement of Source and Application of Funds shown on page 8 which indicates actual increases during the year of approximately $23,973,000 in plant facilities and $37,243,000 in deferred development, preproduction and start-up costs. On the Balance Sheet the relatively small increase in the plant account results from the fact that a number of items formerly carried as plant facilities under construction have been transferred to the deferred development account rather than to the land, buildings and equipment account. These items include primarily expenditures related to the Fort McMurray bridge, camp services, the access road to the site, overburden removal, and the feasibility study. An additional large increase in the deferred development account has resulted from substantial expenditures for maintenance labour and materials, interest and other expenses. Operating expenses to December 31, 1967 have been placed in this account since the plant is not yet fully in production.

Tribute to Clarence H. Thayer. We wish to express our deep appreciation to Clarence H. Thayer, who retired as a director and president of the Company in December 1967, for his invaluable leadership in the planning, construction and start-up of the Company's Athabasca facilities.

Kenneth F. Heddon, a director of your Company and the president of Sun Oil Company Limited, was named to succeed Mr. Thayer as president.

In conclusion, we wish to express our thanks to all Great Canadian employees for their excellent performance particularly during the difficult start-up period.

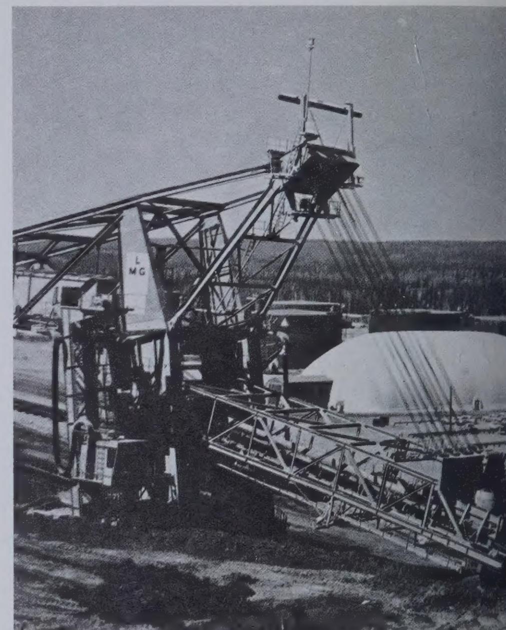
W. H. Rea

W. HAROLD REA
Chairman of the Board

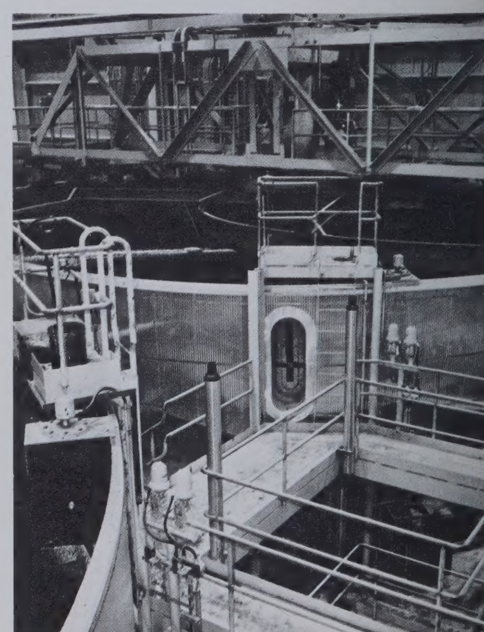
K. F. Heddon

KENNETH F. HEDDON
President

February 8, 1968

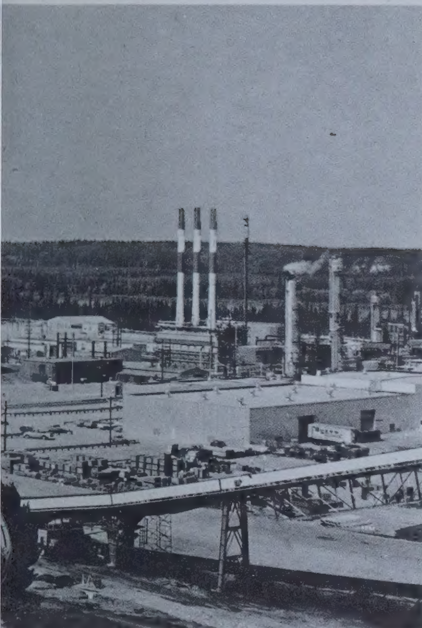


Bucketwheel excavator digs 150 tons of tar sand per minute. Part of conveyor system which carries sand into extraction plant is seen rising from ground level (right).



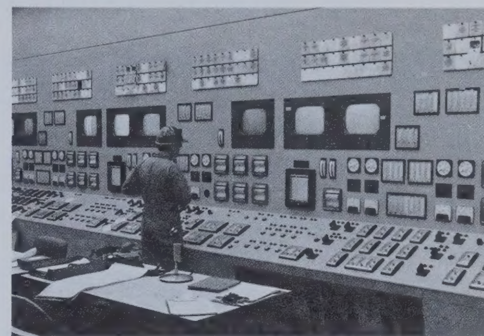
In extraction plant separation cells, revolving blades skim off bitumen as it rises to surface. Sand and water settle to bottom.

Overview of plant area shows hydrogen unit in centre foreground flanked by processing area at left and power plant at right.

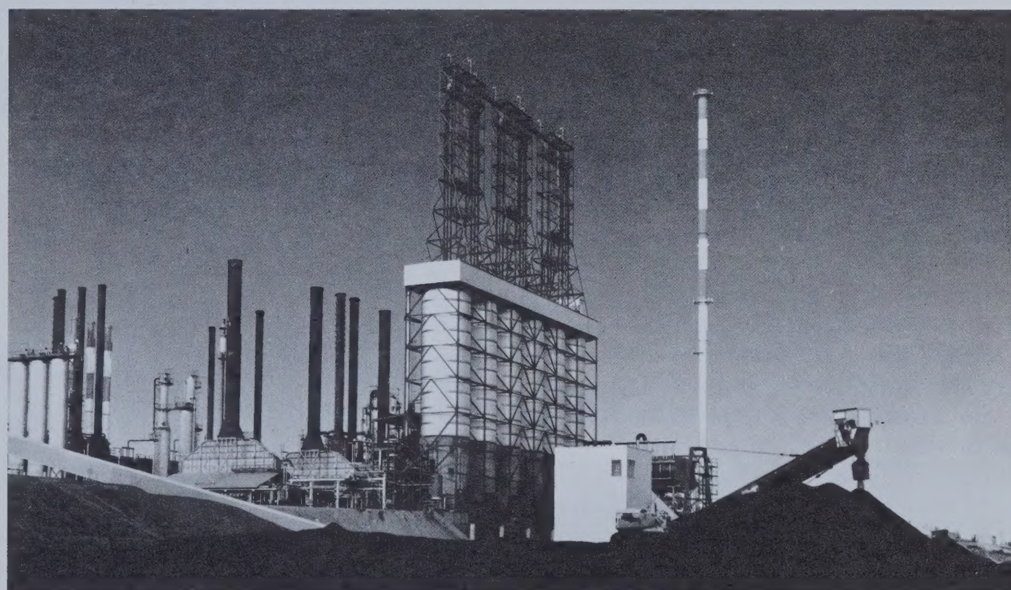


Unifiners in processing area upgrade coker products into components of synthetic crude.

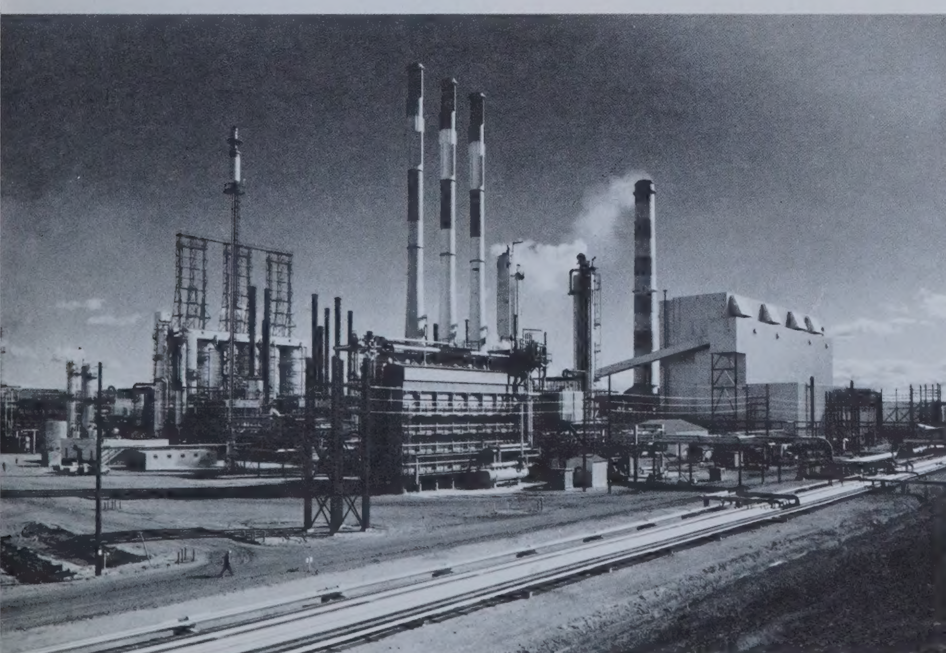
TV monitors in power plant control room enable operator to keep close watch on burners.



Conditioning drums in extraction plant rotate slowly as hot water and steam mix with tar sand to form a pulp.



Coke in foreground is extracted from bitumen for use as fuel. In full operation, some 2,800 tons of coke are produced daily.



Contemporary style home in Fort McMurray is one of many built in 1967 for GCOS families.

Over 600 attend formal opening ceremony

Great Canadian's Athabasca tar sands complex was officially opened with formal ceremonies at the plant site on September 30.

More than 600 guests including government, business, labour, and community leaders from across Canada attended the ceremonies and heard Alberta Premier Ernest C. Manning, in the official dedication address, label the history-making opening "the most significant event in Canada's Centennial."

Representing the Government of Canada, Robert H. Winters, Minister of Trade and Commerce, commended the project as an excellent example of what private enterprise can do by making wise use of capital. He also expressed support for continuance of incentives provided by Canada's tax laws which he said "contributed to the development of this great project."

The opening ceremonies were part of a three-day observance running from Friday, September 29 through Sunday, October 1.

On Friday, designated as Press Day, more than 100 members of the North American press and broadcast media toured the mining and processing areas. Later, GCOS and Sun officials welcomed the group at an hour-long press conference and luncheon.

On Friday evening in Edmonton, more than 700 guests attended a reception and film showing at the MacDonald Hotel. There they saw the premiere showing of a wide-screen documentary film, "Athabasca", depicting the pioneering nature of the GCOS project and its impact on the area.

On Saturday morning, the guests were flown to Fort McMurray, where the usually quiet airport handled 33 private and chartered planes. On the 30-mile bus trip from the airport to the plant site, guests were driven through Fort McMurray to view the town and the new homes built for Great Canadian employees.

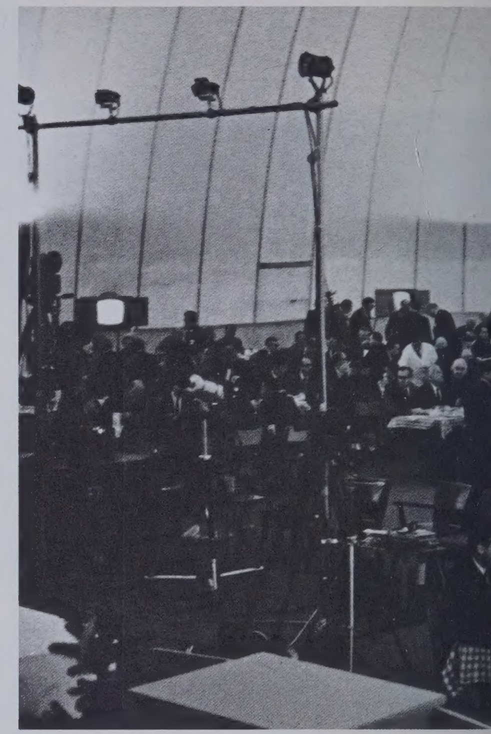
At the plant site, guests gathered inside the giant inflated fabric "Bubble" for a barbecue luncheon and the opening ceremonies. The Bubble, formerly used to house construction work during the winter months, was spruced up and colourfully decorated for the occasion.

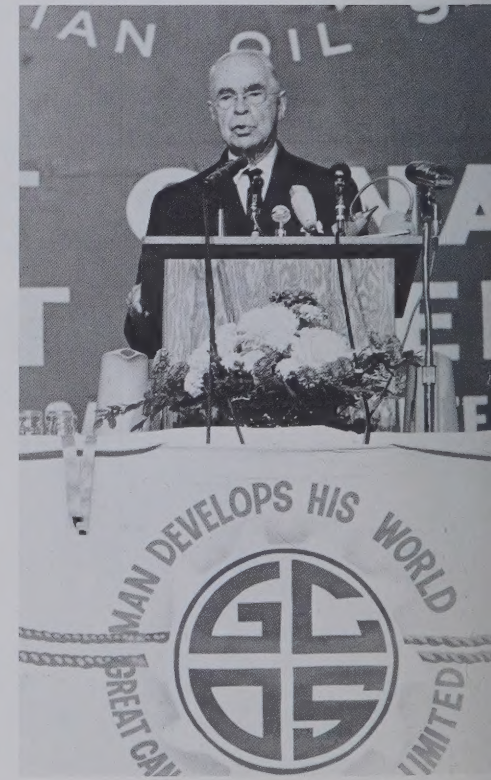
Seated at the head table, facing movie and TV cameras, were dignitaries representing GCOS and the Sun organization, the Alberta government, the Government of Canada, the U.S. Department of Interior, the town of Fort McMurray and Canadian Bechtel Limited, the prime contractor for the project.

In addition to Premier Manning and Mr. Winters, speakers included J. Howard Pew, Sun board chairman; Robert G. Dunlop, Sun president; W. Harold Rea, GCOS board chairman; Clarence H. Thayer, GCOS president (since retired); Kenneth F. Heddon, Sun Limited president (now GCOS president); S. D. Bechtel Sr., senior director of the Bechtel Corporation; and Robert McClements Jr., GCOS vice president and plant manager.

Following the luncheon and opening programme, guests were taken on guided bus-walking tours of the excavator-conveyor area, extraction plant, power plant and coker area.

Sunday, October 1, was Family Day at the plant site for Great Canadian and Catalytic Construction employees. More than 1,200 employees and family members met with GCOS and Sun officers, toured the plant complex, and watched a videotape of the Saturday programme on television monitors in the Bubble. Refreshments were served and entertainment was provided for the children.



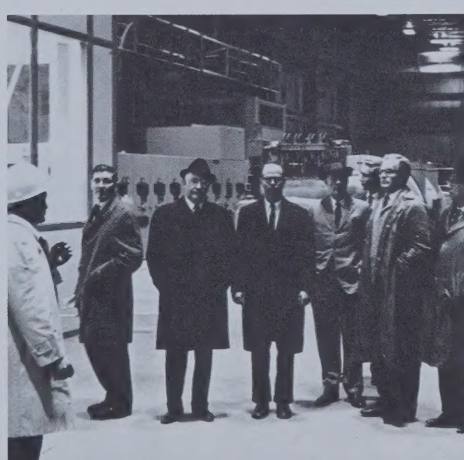


J. Howard Pew, Sun's board chairman, paid tribute to "the character and intelligence of a man who inspires men, Premier Manning."

Opening ceremony and barbecue luncheon were held in giant Bubble. View from speakers' table shows some of the 600 Canadian government, industry and community leaders and members of the press who attended.

Robert H. Winters, Minister of Trade and Commerce, spoke at the opening as Government of Canada representative.

COS guides conducted bus-walking tours f plant complex after opening ceremony.



Members of press, escorted by GCOS guides, toured plants before other guests arrived.

On Family Day, GCOS families and guests were greeted by company officials and were served refreshments in the gaily decorated Bubble.

GCOS directors (l. to r.) Messrs. Robert McClements Jr., D. W. Ferguson, C. H. Thayer, and K. F. Heddon at press conference.

GREAT CANADIAN OIL SANDS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET—DECEMBER 31, 1967

(with comparative figures at December 31, 1966)

ASSETS	1967	1966
Current:		
Cash	$ 199,809	$ 234,683
Bank term deposits plus accrued interest		8,647,506
Sundry accounts receivable	618,671	122,632
Inventories—		
Finished product, at net realizable value	1,074,031	
Supplies, at cost	232,619	
Prepaid charges	1,721,125	181,367
Total current assets	3,846,255	9,186,188
Plant facilities and other assets:		
Licensing rights and prospecting permit	562,500	562,500
Plant facilities under construction, at cost		160,713,749
Land, buildings and equipment, at cost (less accumulated depreciation 1967—$114,788; 1966—$78,841)	174,458,412	171,922
Housing—		
Rental housing properties and trailers, at cost (less accumulated depreciation 1967—$657,840; 1966—$263,365)	3,195,109	
Houses to be sold under long term instalment sale agreements with employees, at selling price which is less than cost	1,168,691	3,689,623
Amounts receivable, under long term instalment sale agreements, for houses sold to employees (note 5)	3,808,993	
Total plant facilities and other assets	183,193,705	165,137,794
Deferred development, preproduction and start-up costs (note 1)	69,885,700	22,242,910
	$256,925,660	$196,566,892
LIABILITIES AND CAPITAL		
Current:		
Bank loans	$ 800,000	$ 700,000
Short-term notes payable—		
Sun Oil Company Limited (parent company)	21,000,000	
Other	32,275,000	22,300,000
Accounts payable and accrued charges (including amounts payable to affiliated companies: 1967—$362,020, 1966—$79,817)	6,158,302	3,361,512
Total current liabilities	60,233,302	26,361,512
Non-current:		
7% notes payable to parent company, due June 30, 1969	100,000,000	78,000,000
6% unsecured, partially convertible debentures (Alberta issue) maturing May 15, 1975 (Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest) (note 2).	12,469,900	12,469,900
5¾% U.S. $50,000,000 notes due July 1, 1991 (note 3)	53,769,000	53,769,000
6¼%-7% mortgages payable on houses sold and to be sold (repayable over terms up to 25 years)	4,486,978	
Total non-current liabilities	170,725,878	144,238,900
Capital (note 4):		
Authorized—9,000,000 shares without nominal or par value		
Issued—5,982,492 shares	25,966,480	25,966,480
	$256,925,660	$196,566,892

On behalf of the Board:
W. H. REA, Director
D. J. WILKINS, Director

The accompanying notes should be read in conjunction with the above statement.

STATEMENT OF DEFERRED DEVELOPMENT, PREPRODUCTION AND START-UP COSTS FOR THE YEAR ENDED DECEMBER 31, 1967

	Balance December 31, 1966	Additions during 1967	Balance December 31, 1967
Exploration expenses, including surveys, soil tests, etc.	$ 1,238,153	$ 56,250	$ 1,294,403
Feasibility study, including field test unit	5,947,899	1,360,757*	7,308,656
Construction of bridge and access road (town to plantsite)		4,827,413*	4,827,413
Outside services, engineers' and consultants' fees	701,175	1,569,278*	2,270,453
Employee maintenance and relocation	380,519	2,226,704*	2,607,223
Lease rentals	30,530	19,734	50,264
Overburden removal		7,851,645*	7,851,645
Plant materials and supplies	1,006,303	287,490	1,293,793
Equipment rentals and service		1,312,320	1,312,320
Power plant fuel	22,292	855,948	878,240
Maintenance labour and materials		8,350,230*	8,350,230
Depreciation of furniture and automobiles	81,028	35,947	116,975
Insurance	323,864	614,056	937,920
Production royalties		337,050	337,050
Salaries and wages	1,122,165	3,674,091	4,796,256
Legal and audit	225,342	41,602	266,944
Interest:			
Bank loans and short-term notes	1,990,968	2,004,350	3,995,318
Non-current notes and debentures	6,439,256	10,330,399	16,769,655
Issue expenses—notes and debentures	677,451	1,390	678,841
Employee housing costs, net of rentals received (including depreciation 1967—$394,475; 1966—$263,365)	315,365	726,093	1,041,458
Excess of costs over selling prices of houses built for sale to employees		1,504,905	1,504,905
Other	2,354,264	1,000,143	3,354,407
	22,856,574	48,987,795	71,844,369
Deduct:			
Value of synthetic crude produced		1,080,274	1,080,274
Interest and sundry income	613,664	264,731	878,395
	613,664	1,345,005	1,958,669
	$22,242,910	$47,642,790	$69,885,700

*These amounts include items aggregating approximately $10,400,000 which were included in plant under construction at December 31, 1966.

The accompanying notes should be read in conjunction with the above statement.

GREAT CANADIAN OIL SANDS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966)

	1967	1966
Source of funds:		
7% notes payable to parent company—due June 30, 1969	$22,000,000	$ 42,500,000
$5\frac{3}{4}$% U.S. $50,000,000 notes due July 1, 1991		53,769,000
Mortgages on houses	4,486,978	
Increase in short-term notes and bank loans	31,075,000	19,725,000
Bank term deposits matured	8,647,506	
Increase in accounts payable	2,796,790	2,699,387
	$69,006,274	$118,693,387
Application of funds:		
Plant facilities	$23,972,741	$ 95,130,596
Housing	4,483,170	3,689,623
Deferred development, preproduction and start-up costs	37,242,790	10,852,882
Investment in bank term deposits		8,647,506
Other	3,307,573	372,780
	$69,006,274	$118,693,387

The accompanying notes should be read in conjunction with the above statement.

NOTES TO FINANCIAL STATEMENTS—DECEMBER 31, 1967

1. **Accounting for start-up costs**

As at December 31, 1967 the company had not yet commenced production in commercial quantities. Consequently all start-up costs, less value of product produced, have been deferred, and depreciation has been provided only with respect to furniture, automobiles and housing.

2. **Conversion privileges attaching to 6% debentures (Alberta issue)**

Subject to certain terms and conditions, a portion of the 6% debentures (Alberta issue) may, at any time after May 15, 1968 and before May 1, 1975, be converted into fully paid and non-assessable shares of the company on the following basis, that is, with respect to each $100 principal amount of the debentures, $32 thereof may be applied to the purchase of and converted into:

(a) Four shares after May 15, 1968 and before May 16, 1970, or

(b) Three shares after May 15, 1970 and before May 16, 1973, or

(c) Two shares after May 15, 1973 and before May 1, 1975.

3. **Prepayment provisions relating to $5\frac{3}{4}$% notes**

The terms of the $5\frac{3}{4}$% notes due July 1, 1991 require annual prepayments of U.S. $2,000,000 commencing July 1, 1971. The terms permit the company to make optional additional annual prepayments of up to U.S. $2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

4. **Reservation of unissued share capital**

The company's authorized but unissued share capital is reserved to the following extent:

(a) 500,000 shares for issue upon the partial conversion of the 6% debentures (Alberta issue).

(b) 7,500 shares at $3 per share under a contract dated June 29, 1964 granting an option to a director exercisable subject to certain terms and conditions on or before June 29, 1969.

5. **Commitments and contingent liabilities**

(a) The company is a party to an agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sub-lease of Bituminous Sands Lease No. 86 in respect of which the company is operating its plant. Under this agreement the company assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca tar sands area. Principal payments on this debt have been deferred on an interest-free basis until 1978. As the company is hopeful of obtaining relief from this debt, no provision for this amount has been recorded in the accounts of the company.

(b) In addition to crown royalties payable on production, the company is obligated to pay to Sun Oil Company Limited and Abasand Oils Limited (under the provisions of the sub-lease agreement referred to above) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from bituminous sands from the leased land, together with additional royalties to Sun and Abasand in respect of desulphurized crude oil under certain circumstances, and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. The sub-lease contains provisions for the payment of advanced royalties where the annual production from the leased land is less than 8,212,500 barrels of synthetic crude.

(c) Under the provisions of the sale agreements covering the sale of houses to employees, the company has undertaken, in the event of employee termination within 10 years of the date of the sale agreement, to repurchase the employee's house by refunding all

GREAT CANADIAN OIL SANDS LIMITED

Clarence H. Thayer

"More than any man he has helped transform this elusive dream into reality. It stands as a monument to his dream." In those words, a fellow executive recently described Clarence H. Thayer's contribution to Great Canadian's Athabasca project. That contribution officially came to an end in December 1967, when he retired as president and a member of the Board of Directors of Great Canadian. In mid-January, 1968 he resigned from the Sun Oil Company Board of Directors after retiring at age 70 as a Sun senior vice president. He had delayed his retirement for several years to direct the massive task of seeing the Athabasca project through to completion. His success in doing so crowned an illustrious career of nearly 55 years in the petroleum industry. The directors and officers of the Company join in wishing him many happy years of retirement.

principal payments received. The aggregate of principal payments received to December 31, 1967 was $57,517.

(d) The company is a party to agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of crude oil to be obtained from the project.

(e) Commitments totalling approximately $1,300,000 were outstanding at December 31, 1967 in respect of the construction and preproduction programme.

6. **Remuneration of directors**

The total remuneration paid by the company to directors during 1967, including directors holding salaried employment, amounted to $113,751.

AUDITORS' REPORT

To the Shareholders of
Great Canadian Oil Sands Limited:

We have examined the balance sheet of Great Canadian Oil Sands Limited as at December 31, 1967 and the statements of deferred development, preproduction and start-up costs and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Canada
January 19, 1968

CLARKSON, GORDON & CO.
Chartered Accountants

DIRECTORS (as at December 31, 1967)

ALEX E. BARRON	WILLIAM H. DAVIS
DARWIN W. FERGUSON	KENNETH F. HEDDON
ARDAGH S. KINGSMILL	ROBERT LAW
ROBERT McCLEMENTS, JR.	JOHN H. McWILLIAMS
W. HAROLD REA	JAMES S. ROE
J. GRANT SPRATT	DONALD J. WILKINS

OFFICERS (as at December 31, 1967)

W. HAROLD REA .... Chairman of the Board
KENNETH F. HEDDON .... President
ALEX E. BARRON .... Vice-President
WILLIAM H. DAVIS .... Vice-President
ROBERT McCLEMENTS, JR. .... Vice-President
ALBERT E. MOSS .... Vice-President
DONALD J. WILKINS .... Vice-President
ARDAGH S. KINGSMILL .... Secretary
JAMES S. ROE .... Treasurer
MAURICE B. PARMELEE ... Comptroller and Assistant Treasurer
DONALD M. TREADGOLD .... Assistant Secretary
DUDLEY M. McGEER .... Assistant Treasurer
WILFRED C. BLOOD .... Assistant Comptroller

HEAD OFFICE

85 Bloor Street East, Toronto 5, Ontario

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY
110 Yonge Street, Toronto 1, Ontario
10182 102nd Street, Edmonton, Alberta
528 8th Avenue, S.W., Calgary, Alberta

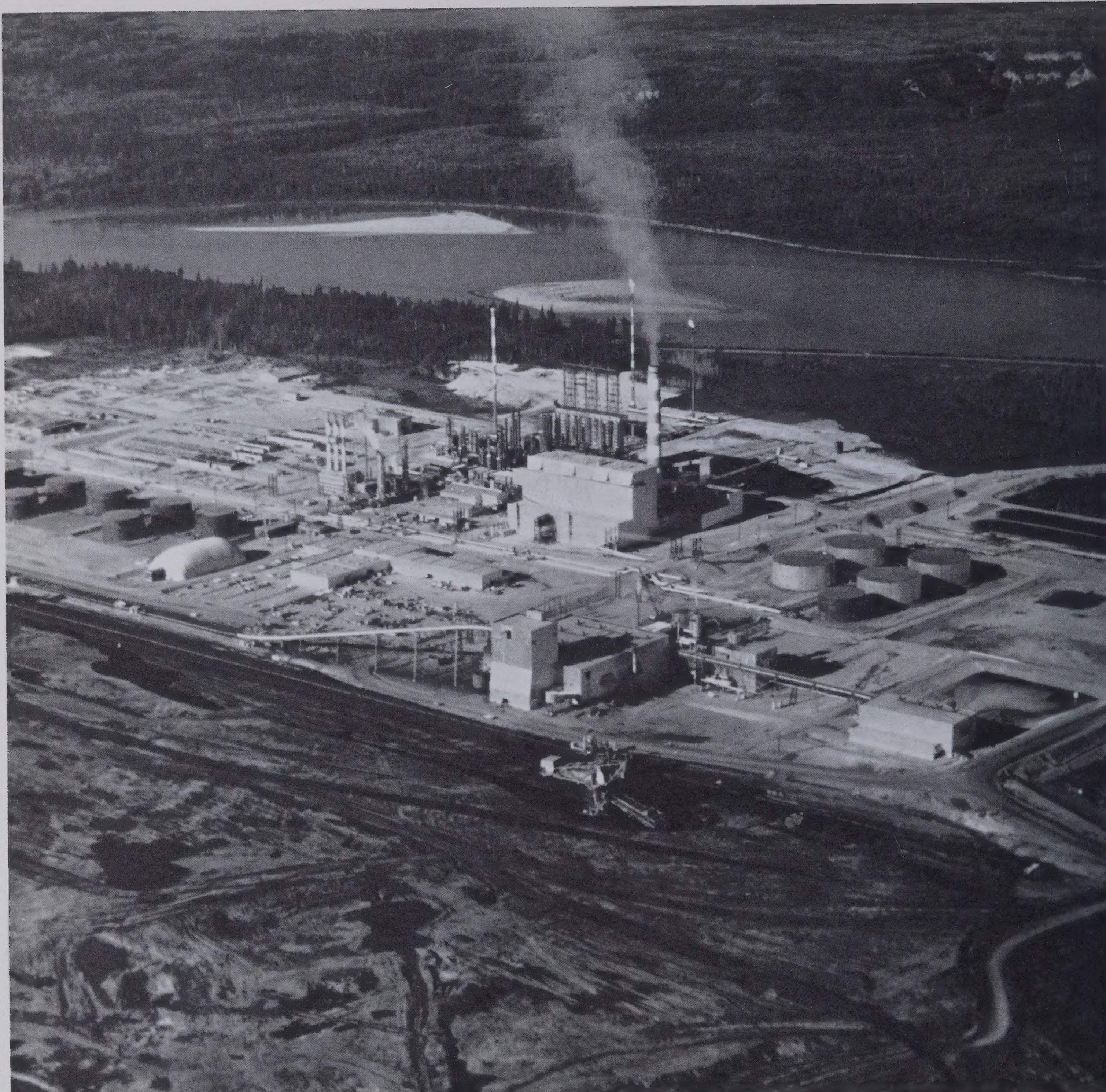
SOLICITORS

BLACKWELL, HILTON, TREADGOLD & SPRATT
Toronto, Ontario

ANNUAL AND SPECIAL GENERAL MEETING

The Shareholders' Meeting will be held in the Library, The Royal York Hotel, 100 Front Street West, Toronto, Ontario, at 10:30 a.m. (Toronto time) on Wednesday, March 27, 1968.

Printed in Canada



Completed GCOS complex on the Athabasca River marks the world's first commercial venture to produce synthetic crude oil from the tar sands.